

SURREBUTTAL TESTIMONY AND EXHIBIT OF

ANTHONY SANDONATO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-82-S

IN RE: APPLICATION OF PALMETTO WASTEWATER RECLAMATION, LLC

FOR ADJUSTMENT OF RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Utility Rates and Services Division as a Regulatory Analyst.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony and four (4) exhibits with the Public Service Commission of South Carolina (“Commission”) on March 12, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to respond to certain portions of Rebuttal Testimony of Palmetto Wastewater Reclamation, LLC (“PWR” or “Company”) witnesses Stone and Daday and to discuss the revised ORS-proposed rates based on a revision to the cost of debt.

Q. PLEASE DESCRIBE THE COMPANY'S REBUTTAL POSITION ON ORS'S PROPOSED RATE CASE EXPENSE ADJUSTMENT.

A. The Company states the initial work performed by Donald J. Clayton of Tangibl Group, Inc. ("Tangibl"), in June of 2018 to prepare the financial schedules for a rate application for PWR with a test year ending on May 31, 2018 should be paid by its customers and recovered over three (3) years.

Q. DOES ORS AGREE WITH THE COMPANY'S POSITION REGARDING THE RATE CASE EXPENSES ATTRIBUTED TO ALL OF TANGIBL EXPENSES?

A. No. The Company acknowledges the schedules produced by Mr. Clayton in June of 2018 were not filed with the Commission or utilized in this rate proceeding.¹ In addition, the Company was working toward completion of multiple large-scale capital projects and the projects would not have been completed or in service to customers under a rate application filed reflecting a test year ending May 31, 2018. Instead, the Company chose a test year ending August 31, 2018 and, as a result revised the timing of its rate case application ("Application") to best allow the cost recovery of those capital investments. The Company's decision to update its test year rendered the schedules prepared by Tangibl of no benefit to PWR's customers. Therefore, the customers should not pay for additional analysis the Company chose not to utilize in the current Application. ORS allowed \$30,840 for the cost recovery of the rate schedules and analysis performed by the Tangibl to support the current Application.

Q. DOES ORS AGREE WITH COMPANY WITNESS STONE'S STATEMENT THAT ORS WISHES TO LIMIT THE COMPANY'S RATE INCREASE?

¹ Rebuttal Testimony of Mark Daday page 2 lines 17-18.

1 A. No. Company witness Stone states it is his belief that ORS wishes to limit PWR's
2 increase.² ORS's recommended rates are derived from the calculated revenue requirement
3 that Company witness Stone also acknowledges in his Rebuttal Testimony.³

4 **Q. DO YOU AGREE WITH THE COMPANY'S CHARACTERIZATION THAT**
5 **ORS'S PROPOSED RATE IS NOT IN THE PUBLIC INTEREST?**

6 A. No. The Company states ORS assumed the only concern of the using and
7 consuming public is in lower rates.⁴ Company witness Stone's statement ignores the
8 methodology ORS used to set its proposed rates by allocating all costs proportionate to the
9 increased revenue requirement. This is the same methodology the Company used when
10 developing its proposed rates. ORS developed cost-based rates that would allow the
11 Company to recover all of its costs plus an opportunity to earn a Return on Equity ("ROE")
12 of 9.6%.

13 ORS recommends recovery of all prudently-incurred utility investment, operating
14 expenses and a reasonable rate of return. ORS's recommendations result in just and
15 reasonable rates and provide the utility with an opportunity to earn a fair return. ORS
16 concluded that its proposed rates provide for continued investment in PWR such that it can
17 provide reliable and high-quality utility services. I agree with ORS witness Parcell's
18 evaluation and analysis regarding a fair rate of return for the Company.

19 **Q. IS IT REASONABLE TO COMPARE THE PROPOSED INCREASE TO THE**
20 **CUMULATIVE RATE OF INFLATION?**

² Rebuttal Testimony of Bryan Stone page 2 lines 16-17.

³ Rebuttal Testimony of Bryan Stone page 2 lines 20-22.

⁴ Rebuttal Testimony of Bryan Stone page 4 lines 63-64.

1 **A.** No. The Company chose to file its requested rate increase without including all
2 effects of the Tax Cuts and Jobs Act, which have been detailed by ORS witness Schellinger.
3 Exclusive of the effects of this substantial tax reduction, which the Company should pass
4 on to its customers, with ORS's adjustments and the Company's cost of debt of 5.23%,
5 ORS calculated an approximate 8.1% increase in revenue that would be needed to allow
6 the Company an opportunity to earn a 9.6% ROE. This is greater than the 7.1% cumulative
7 rate of inflation detailed by ORS witness Parcell and referenced by Company witness
8 Stone.⁵

9 **Q. PLEASE EXPLAIN WHY ORS'S RECOMMENDATION DOES NOT**
10 **DISCOURAGE INVESTMENT.**

11 **A.** Company witness Stone states in his Rebuttal Testimony that ORS's position serves
12 to discourage future investment in facilities by PWR or its affiliates.⁶ ORS's
13 recommendations would allow cost recovery of all included prudently incurred Company
14 investments with a reasonable rate of return for investors.

15 **Q. WHAT IS THE IMPACT ON THE ORS PROPOSED RATES BY UPDATING THE**
16 **COST OF DEBT TO 5.23%?**

17 **A.** Surrebuttal Exhibit AMS-1 details the updated ORS proposed revenue requirement
18 and proposed rates to reflect the Company's debt rate of 5.23%. Incorporating the update
19 to the cost of debt would result in an operating margin of 14.81% which is consistent with
20 the 16.96% operating margin authorized in the Company's last rate case.

21 If the Commission approves the Company's proposed rates of \$41.18 per SFE, the
22 resulting operating margin would be 22.51% as seen on ORS witness Seale's Surrebuttal

⁵ Rebuttal Testimony of Bryan Stone page 6 lines 117-119.

⁶ Rebuttal Testimony of Bryan Stone page 5 lines 98-100.

Exhibit CLS-7 which equates to a ROE of 16.77%. The resulting ROE is over 73% greater than the average 2017 ROE for regulated water utilities as referenced in the ORS witness Parcell's Direct Testimony (p.15).

Q. WOULD THE COMPANY'S CUSTOMERS ACCEPT A HIGHER RATE FOR SERVICE AS INDICATED BY COMPANY WITNESS STONE?

A. While ORS has received no consumer complaints regarding PWR since its last rate proceeding, I have not met a utility customer that is in favor of paying more for service. As ORS observed at the Town Hall Meetings sponsored by PWR, the customers were very concerned about the proposed rate increase. PWR was diligent in answering customer questions. Lack of participation in the rate proceeding process does not indicate acceptance. In addition, the Company's rates should be set based on the cost to serve the customers, which the ORS rates accomplish, not an arbitrary rate the Company believes customers would be willing to pay.

Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, become available.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Palmetto Wastewater Reclamation, LLC

Docket No. 2018-82-S

Revenue Impact Analysis

ORS Calculated Revenue at Current Rates

Customer Classification	Equivalent Residential Connections (ERC)	Monthly Rate	Test Year Calculated Revenues
PWR Alpine Test Year Revenues			
Residential	931.00	\$34.50	\$318,434
Residential - Mobile Home	51.00	\$25.75	\$15,759
Commercial	1,928.47	\$34.50	\$798,387
Multi - Family Units, Apartments, Condominiums, etc.	4,349.00	\$34.50	\$1,800,486
	Total PWR - Alpine Revenue		\$3,000,066
PWR-Woodland Test Year Revenues			
Residential	391.00	\$34.50	\$161,874
Residential - Mobile Home		\$25.75	\$0
Commercial	29.55	\$34.50	\$12,234
Multi - Family Units, Apartments, Condominiums, etc.	308.00	\$34.50	\$127,512
	Total PWR - Woodland Revenue		\$301,620
	Total Sewer Service Revenue		\$3,301,685
	Alpine	Woodland	
Other Sewer Revenues - Notification Fees	\$19,825	\$3,400	\$23,225
Other Sewer Revenues - Reconnect Fees	\$2,695	\$175	\$2,870
Other Sewer Revenues - Customer Account Charges	\$2,420	\$340	\$2,760
Other Sewer Revenues - Late Fees	\$23,747	\$1,154	\$24,901
Other Sewer Revenues - Returned Check Fees	\$600	\$50	\$650
Other Sewer Revenues	\$1,382	\$3,986	\$5,369
Total	\$50,670	\$9,105	\$59,775
	Total Operating Revenue		\$3,361,460

ORS Calculated Revenue at ORS Proposed Rates

Customer Classification	Equivalent Residential Connections (ERC)	Monthly Rate	Test Year Calculated Revenues	Increased Amount	% Increase
PWR Alpine Test Year Revenues					
Residential	931.00	\$35.77	\$399,622	\$14,188	3.7%
Residential - Mobile Home	51.00	\$26.71	\$16,347	\$588	3.7%
Commercial	1,928.47	\$35.77	\$827,776	\$29,389	3.7%
Multi - Family Units, Apartments, Condominiums, etc.	4,349.00	\$35.77	\$1,866,765	\$66,279	3.7%
	Total PWR - Alpine Revenue		\$3,110,510	\$110,444	3.7%
PWR-Woodland Test Year Revenues					
Residential	391.00	\$35.77	\$167,833	\$5,959	3.7%
Residential - Mobile Home	0.00	\$26.71	\$0	\$0	-
Commercial	29.55	\$35.77	\$12,684	\$450	3.7%
Multi - Family Units, Apartments, Condominiums, etc.	308.00	\$35.77	\$132,206	\$4,694	3.7%
	Total PWR - Woodland Revenue		\$312,723	\$11,103	3.7%
	Total Sewer Service Revenue		\$3,423,233	\$121,548	3.7%
	Alpine	Woodland		\$0,000	-
Other Sewer Revenues - Notification Fees	\$19,825	\$3,400	\$23,225	\$0	0.0%
Other Sewer Revenues - Reconnect Fees	\$2,695	\$175	\$2,870	\$0	0.0%
Other Sewer Revenues - Customer Account Charges	\$2,420	\$340	\$2,760	\$0	0.0%
Other Sewer Revenues - Late Fees	\$24,622	\$1,197	\$25,818	\$917	3.7%
Other Sewer Revenues - Returned Check Fees	\$600	\$50	\$650	\$0	0.0%
Other Sewer Revenues	\$1,382	\$3,986	\$5,369	\$0	0.0%
Total	\$51,544	\$9,148	\$60,692	\$917	1.5%
	Total Operating Revenue		\$3,483,925	\$122,465	3.6%

Calculation Methodology:

Note: Total ERC Units as reported during test year.

Customer Tap Fees, Deposits and Interest on Deposits not included in computations.

Growth factor not included for comparison purposes.